

Committee: Financial Investment Board	Date: 22 March 2018
Subject: Risk Register for Financial Investment Board	Public
Report of: The Chamberlain	For Decision
Report author: Tom Broughton– Chamberlain’s Department	

Summary

Recent regulatory updates within the Markets in Financial Instruments Directive (MiFID II) have augmented the requirements on Local Authority investors to demonstrate their credentials as ‘professional’ investors, in order to preserve access to suitable asset classes and instruments, for a sizeable long-term investor with statutory liabilities. There is no existing Risk Register specific to the role of the Financial Investment Board and this is considered to be a barrier to the City of London being able to demonstrate prudent stewardship for all its the non-property financial assets and non-social investment financial assets, particularly with regards to MiFID II.

This report attached at Appendix 2 is the proposed Risk Register for the Financial Investment Board, highlighting key risks for review. It is recommended that this Risk Register be reviewed quarterly by officers and reported to Financial Investment Board on an exceptions basis to ensure any new risks are identified quickly and that appropriate measures are in place to mitigate those risks. This is in line with standard risk review procedures across the rest of the City of London Corporation.

Recommendations

Members are asked to:

- review the risks and actions proposed for the Financial Investment Board’s Risk Register, and confirm that appropriate control measures are in place; and
- confirm that there are no further risks relating to the services overseen by the Financial Investment Board.

Main Report

Background

1. This report provides a key Risks Register for the Financial Investment Board. Recent regulatory updates within the Markets in Financial Instruments Directive (MiFID II) have augmented the requirements on Local Authority investors to demonstrate their credentials as ‘professional’ investors, in order to reserve access to suitable asset classes and instruments, for a sizeable long-term investor with statutory liabilities. There is no existing Risk Register specific to the role of the Financial Investment Board and this is considered to be a barrier to the

City of London being able to demonstrate prudent stewardship for all its the non-Property property financial assets and non-Social social investment financial assets, particularly with regards to MiFID II.

2. It is recommended that the register is reviewed quarterly by officers and reported to Financial Investment Board on an exceptions basis to ensure that existing risks are reconsidered, and any new risks are identified.

Review of Risks

3. The method of assessing risk reflects the City of London's standard approach to risk assessment as set out in its Risk Management Strategy approved by the Audit and Risk Management Committee in May 2014. The City of London Corporation risk matrix, which explains how risks are assessed and scored, is attached at Appendix 1 of this report. Risk scores range from one, being lowest risk, to the highest risk score of thirty-two. These scores are summarised into 3 broad groups, each with increasing risk, and categorised green, amber or red.
4. The Risk Register to be reviewed is set out in Appendix 2. This contains six risks as summarised below:
 1. Fund's asset allocations is unable to meet liabilities or expenditure requirements – overall risk score of amber (8)
 2. Fund managers fail to achieve the targeted investment returns – overall risk score of amber (8)
 3. Service provision withdrawal or liquidation of partner organisations –overall risk score of green (4)
 4. External events threaten the solvency of counterparties the Corporation has lent to – overall risk score of green (4)
 5. Inaccurate cash flow modelling for Corporation as a whole– overall risk score of green (4)
 6. Lack of understanding of the applicable statutory requirements such as investment regulations, prudential code etc.– overall risk score of green (2)

Mitigation of amber risks:

Risk 1 is mitigated through review of the investment strategies of the Pension Fund, Bridge House Estates and City's Cash at least every 3 years but also the performance of these Funds is measured against absolute return targets required to meet long term objectives and this is reported to the Financial Investment Board throughout the year. The Financial Investment Board can enact strategic asset allocation decisions in between the formal 3-yearly reviews in consultation with the investment consultants Mercer.

Risk 2 is being mitigated through regular monitoring of the investment manager performance against appropriate benchmarks by the Financial Investment Board throughout the year. Market insight is also provided by the Corporation's investment consultants which provides manager peer group comparisons, checks on movement of key officers and reviews on the incorporation of ESG considerations in implementing their investment strategies. If any fund manager consistently under-performs its relevant target over time or exhibits other alarming developments (e.g. investor outflows or key officer departures) the

Financial Investment Board hold discretion to divest from any incumbent investment manager. Whilst the Pension Fund retains responsibility for strategic asset allocation the London CIV will be responsible for selecting fund managers.

5. Each risk in the register has been considered by the responsible officer within the Corporation who is referred to as the 'Risk Owner' in the register.

Conclusion

6. The risks overseen by the Financial Investment Board are primarily of low likelihoods but represent substantial impact, particularly with regards to financial loss and reputational damage. The Board is requested to confirm that appropriate control measures are in place for these risks and that there are no other risks that should be added to the FIB Risk Register.

Appendices

- Appendix 1 - City of London Corporation Risk Matrix
- Appendix 2 – Financial Investment Board Risk Register

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